



**ANNUAL  
REPORT** 2017

ANNUAL REPORT **FOR THE YEAR ENDED 30 JUNE 2017**



**AUSTRALIAN  
MASTERS  
YIELD**

FUND No 3 LIMITED

ABN 58 149 790 545

# DIRECTORY

The Company's shares are quoted on the official list of the Australian Securities Exchange Limited (**ASX**).  
Home Exchange is Sydney.

ASX Code is AYJ.

## DIRECTORS

**Mr Alexander MacLachlan** (Non-Executive Chairman)

**Mr Daryl Dixon** (Non-Executive Director)

**Mr Christopher Brown** (Non-Executive Director)

## COMPANY SECRETARY

**Ms Hannah Chan**

## REGISTERED OFFICE

**Level 15, 100 Pacific Highway  
North Sydney NSW 2060**

**T** 1300 454 801

**F** 1300 457 349

## PRINCIPAL OFFICE

**Level 15, 100 Pacific Highway  
North Sydney NSW 2060**

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**amyf.com.au**

## SHARE REGISTRY MANAGED BY

**Boardroom Pty Limited**

Level 12, 225 George Street  
Sydney NSW 2000

**T** 1300 737 760

**F** 1300 653 459

**boardroomlimited.com.au**

## AUDITOR

**Deloitte Touche Tohmatsu**

Grosvenor Place, 225 George Street  
Sydney NSW 2000

**T** +61 2 9322 7000

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**deloitte.com.au**

## BANKERS

**Macquarie Bank**

**ANZ Bank**

**Australian Masters Yield Fund No 3 Limited**

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**Australian Masters Yield Fund No 3 Limited**  
**Chairman's letter**  
**30 June 2017**

Welcome to the Annual Report for the Australian Masters Yield Fund No 3 Limited ('AMYF3' or the 'Company') for the financial year ended 30 June 2017 (FY17). The Company is part of the Australian Masters Yield Fund Series ('AMYF Series' or 'the Funds').

**Overview**

At 30 June 2017, the Company remained invested in 2 different fixed income securities issued by Australian and international companies, with a face value totalling \$11.2 million.

The table below outlines the holdings of the Company at 30 June 2017.

<b>ISSUER</b>	<b>TYPE</b>	<b>CALL DATE</b>	<b>MATURITY</b>	<b>FACE VALUE</b>
AMP Bank	Subordinated Debt*	21-Dec-17	21-Dec-22	\$7,500,000
AMIT	Senior Note*	9-Nov-17	9-Nov-22	\$3,700,000

\*Floating rate investment.

The profit of the Company after providing for income tax amounted to \$1,837,377 (2016: \$2,664,738). The net asset value per share of the Company at 30 June 2017 was \$23.55 (30 June 2016: \$71.83). The earnings per share (EPS) was calculated as \$1.88 (2016: \$2.73). EPS has declined from 2016 due to the redemption of bonds within the Company and from a decline in the reference rate used to determine the coupons on the floating rate investments within the Company. From the beginning of the 2016 financial year to the end of 2017 financial year bank bill yields, as measured by the 3-month bank bill rate, have declined 0.42%.

During the year, the Company paid three fully franked dividends of \$0.79 (August 2016), \$0.54 (November 2016) and \$0.50 (March 2017) and a dividend of \$0.50 franked at 25% (June 2017). The Company made two capital returns during the period of \$14.34 per share in March 2017 and \$33.49 per share in June 2017. As at 30 June 2017 the Company has returned \$76.07 per share of capital to shareholders.

Subsequent to June 30 2017, the Company announced a dividend of \$0.48, franked at 5% and a capital return of \$8.19 per share, both announced and expected to be paid on 28 August 2017.

**Company activity**

During the year, the following bonds matured and were redeemed by their respective issuer; Bank of America (February 2017); Morgan Stanley (February 2017); and Morgan Stanley (May 2017). In addition, the following bonds (or hybrids) were redeemed early (called) by their respective issuer; Bank of Queensland (March 2022, called in March 2017); Insurance Australia Group (May 2019, called in May 2017); and IMB Building Society (June 2022, called in June 2017).

All fixed income securities held within the portfolio of AMYF3 continue to perform as expected, and pay coupons/dividends accordingly.

**Global market summary**

Global equity markets performed strongly over the year to 30 June 2017 (FY17). In part this was boosted by improving economic data across key regions, stimulus in China, and hopes of a more pro-business policy agenda in the United States (US). The MSCI World Index was up 24% in US dollar (USD) terms over the financial year. Improving central bank outlooks, a positive outlook for inflation, and improved corporate earnings over the second-half of the year fuelled investor enthusiasm for higher-risk assets as prices rose and credit spreads contracted. There were volatile periods, with politics dominating the news headlines.

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The year began in the aftermath of the Brexit vote (23 June 2016), US voters went to the polls on 8 November, French presidential elections were held on 23 April and 7 May, and the British Prime Minister surprised her electorate by calling a snap election for 8 June. In each case the final distribution of votes was far from consensus expectations. The election of Donald Trump as US President, the support for far-left candidate Marine La Pen (running with anti-immigration and anti-EU policies) in the French elections, and the failure of the British Conservative party to hold onto a majority in the UK election surprised both political commentators and investment markets.

Despite the political instabilities, the US economy improved over FY17. GDP growth was 2.1%, unemployment continued to fall – ending at 4.4% – and business conditions, as measured by the Institute of Supply Management (ISM) Index, rose to 57.8 (from 52.8 at 30 June 2016). Positive momentum was due in part to the post-financial crisis recovery and an upbeat business outlook following the US election of Donald Trump. Inflation (1.6% year-on-year, compared with 1.0% at 30 June 2016) continued to increase, although more recent data indicates that reaching the US Federal Reserve's Open Market Committee (FOMC) target of 2% will take longer than previously anticipated. The FOMC raised the federal funds target rate range three times during FY17 (at meetings in December, March and May) to a range of 1.00% to 1.25%. On all three occasions, the market expected rate rises as FOMC members had duly foreshadowed the increases. FOMC members are currently signalling a further rate rise in 2017 and several in 2018. Fixed income markets, however, are less confident about this interest rate trajectory due to recent weak inflation data. Recently, a key focus was the FOMC's 14 June announcement where confirmation of balance sheet normalisation later this year was provided.

In Europe, the European Central Bank (ECB) kept its deposit rate at -0.4% throughout the year, despite improving GDP growth (2.2% for FY17), declining unemployment (from 10.1% to 9.1% from 30 June 2016 to 30 June 2017) and mildly positive inflation. The ECB's asset purchase plan (an additional €60 billion of bonds per month) is still intended to run until the end of December 2017. However, attention was focused on a presentation on June 27, when Mario Draghi, President of the ECB commented that the ECB would move to adjust rates and their rate of asset purchases when the eurozone moved from disinflation to inflation, which he indicated had already happened. These comments had an instant impact in both bond and equity markets as participants absorbed the implication that the ECB would soon begin to transition away from its long-standing and highly accommodative position.

At 30 June 2016, over US\$10 trillion of sovereign bonds were trading at negative yields. Key short-duration bonds continued to be priced at negative yields in Germany, Switzerland and Japan, although longer duration (i.e. 10-year) bonds, issued by the same countries with the exception of Switzerland (-0.02%), are now priced at positive yields: Germany (0.47%); and Japan (0.09%). US 10-year government bond yields began the year at 1.47% and peaked at approximately 2.60% in December, and again in March, on the back of a stronger US economic outlook and FOMC rate rises. By the end of FY17, however, they had drifted back to 2.30% as both the outlook for inflation and the impact of Trump's policies (or lack-there-of) disappointed markets. The US yield curve steepened marginally over the period, from 0.89% to 0.92% between the two- and ten-year section of the curve.

### **Domestic market summary**

The Reserve Bank of Australia (RBA) maintained an accommodative monetary policy stance throughout FY17. It lowered the cash rate in August 2016 by 25 basis points (bps) from 1.75% to a record low of 1.50%. This was in response to low levels of inflation, moderate global economic growth, mixed labour market indicators, and weak fixed asset investment. Although Interest rate futures had implied a high probability of further RBA cuts prior to the end of the 2016 as global growth prospects improved this was quickly reversed.

The Australian dollar (AUD) appreciated 3.2% against the USD over FY17, trading between US\$0.75 and US\$0.77 for most the year. The AUD did dip to US\$0.72 in December/January as the outlook for the US economy, relative to that of Australia's, peaked with the first Trump administration announcements and increasing US rates.

Australian bond prices declined in FY17, as the potential for further rate cuts dissipated. Bond yields at the short end of the yield curve were pinned by RBA rates and did not follow US yields higher. However, longer term (i.e. 10-year) Australian government bonds followed global long-term bond yields higher, increasing from 1.98% at 30 June 2016 to 2.60% at 30 June 2017, peaking at 2.98% in March.

Australian credit spreads, as measured by the additional average yield that companies in the iTraxx index are required to pay, over government yields, ended the fiscal year 0.50% narrower, at 0.77%. Spreads generally reflected the declining levels of corporate risk as global economic indicators and commodity prices improved and expectations of more robust corporate earnings were priced in.

**Australian Masters Yield Fund No 3 Limited**

**Chairman's letter**

**30 June 2017**

The Bloomberg Australian Corporate Bond BBB five-year composite yield moved lower during FY17. After a high of 4.53% in the second quarter of 2017, on FOMC and US economic enthusiasm, the yield drifted lower into the end of the year, finishing at 3.95%.



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Mr Alexander MacLachlan  
Chairman

22 August 2017

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**Corporate governance statement**  
**30 June 2017**

Unless disclosed below, all the best practice recommendations as set out in the Third Edition of the ASX *Corporate Governance Principles and Recommendations* have been applied for the entire financial year ended 30 June 2017.

## **1. Lay solid foundations for management and oversight**

### **Board roles and responsibilities**

The Board is responsible for the overall operation, strategic direction, leadership and integrity of Australian Masters Yield Fund No 3 Limited (**Company**) and, in particular, is responsible for the Company's growth and profitability. In meeting its responsibilities, the Board shall undertake the following functions:

- providing and implementing the Company's strategic direction;
- overseeing the Manager's implementation of the Company's strategic objectives and monitoring its performance;
- reviewing and overseeing the operation of systems of risk management ensuring that the significant risks facing the Company are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with;
- overseeing the integrity of the Company's accounting and corporate reporting systems, including the external audit;
- ensuring the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the best standards of governance;
- reviewing and overseeing internal compliance and legal regulatory compliance;
- ensuring compliance with the Company's constitution and with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act 2001*; and
- overseeing the Company's process for making timely and balanced disclosures of all material information concerning the Company communicating with, and protecting the rights and interests of, all security holders.

The responsibility for the operation and administration of the Company is delegated, by the Board, to Walsh & Company Asset Management Pty Limited (**Manager**) as set out in the Board Policy and the Management Agreement. The Board ensures the Manager is appropriately qualified and experienced to discharge its responsibilities. The Manager will be responsible for implementing the Company's strategic objectives and operating within the risk appetite as set out within the Investment Guidelines.

### **Appointment of directors**

The Company has adopted a formal process to ensure that appropriate checks are undertaken before appointing a person, or putting forward to security holders a candidate for election as a director. The Company has outsourced part of this function to an external service provider, which specialises in completing background checks, to verify the candidate's experience, education, criminal record and bankruptcy history.

Upon proposing a candidate for election or re-election as a director, the Company provides security holders with all the relevant material information in its possession to allow security holders to make an informed decision on whether or not to elect or re-elect the candidate. This information will generally include;

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- biographical details of the candidate, including their qualifications, experience and skills which may be relevant to the Board of the Company
- details of any current or past directorships held by the candidate

Each Director of the Company receives a formal appointment letter outlining their terms of employment, responsibilities, conditions and expectations of their engagement.

**Role of the company secretary**

The Company Secretary of the Company is directly accountable to the Board, through the Board Chairperson on all matters to do with the proper functioning of the Board. This includes:

- advising the Board on governance matters;
- circulating to the Board all board papers in advance of any proposed meeting;
- ensuring that the business at board meetings is accurately captured in the minutes; and
- facilitating the induction and professional development of directors.

**Diversity**

The Company recognises the ASX recommendation with respect to gender diversity and the value add benefits of female representation on the board. However, the Board is of the view that given the fixed life of the Fund, the relatively static nature of the Company's portfolio held, the rigid investment strategy and the size of the Company, it is not necessary for the Company to adopt a diversity policy or to seek and appoint a female director.

**2. Structure the board to add value**

**Board composition**

The Company seeks to maintain a Board of Directors with a broad range of skills. The Company has developed a Skills Matrix below which lists the skills that have been identified as the ideal attributes the Company seeks to achieve across its Board membership:

- Leadership
- Industry Knowledge
- Understanding of the Fixed Income Markets
- Corporate Governance
- Financial & Accounting
- Funds Management
- Risk Based Auditing & Risk Management
- Legal

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the Directors' Report. The names of the directors of the Company during the reporting period are:

Mr Alexander Gen MacLachlan (Non-Executive Chairman)

Mr Daryl Albert Dixon (Non-Executive Director)

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Mr Christopher Matthew Brown (Non-Executive Director)

The Company has no executives or executive directors. All directors are associated with the Manager, however the Board is of the view that given the relatively static nature of the Company's portfolio to be held and the rigid investment strategy and the size of the Company, it is not necessary for the Company to have any independent directors.

The Company recognises the ASX Recommendations with respect to establishing audit, risk, remuneration and nomination committees as good corporate governance. However, considering the size and nature of the Company, the functions that would be performed by these committees are best undertaken by the Board. This is also in line with ASX Recommendations which recognise that "the ultimate responsibility of the integrity of a Company's financial reporting rests with the full Board".

The Board will review its view on committees in line with the ASX Recommendations and in light of any changes to the size or nature of the Company and, if required, may establish committees to assist it in carrying out its functions.

At that time the Board will adopt a charter for such committees in accordance with the ASX Recommendations and industry best practices.

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive directors on a case-by-case basis and in conformity with the requirements of the Listing Rules and the *Corporations Act 2001*. In accordance with the corporate governance policy, directors are entitled to seek independent advice at the expense of the Company. Written approval must be obtained from the chair prior to incurring any expense on behalf of the Company.

#### **Performance evaluation**

The Board will review its performance annually by discussion and by individual communication with the Chairman, and by reference to generally accepted Board performance standards. The Board and individual directors, including the chairperson, were evaluated during the year to 30 June 2017 in accordance with these processes.

#### **Induction and ongoing professional development**

On appointment, the Directors are individually briefed by the Manager and the Management team. Directors are entitled to receive appropriate professional development opportunities to develop and maintain the skills and knowledge needed to perform their role as Directors effectively. The Company's Induction Program is structured to enable a new Director to gain an understanding of; the Company's Investments, the Company's financial, strategic, operational and risk management position, and their rights, duties and responsibilities.

The Company Secretary is responsible for facilitating the induction and ongoing development of all Directors, and where necessary, from time to time, will recommend relevant courses and industry seminars which may assist Directors in discharging their duties.

### **3. Act ethically and responsibly**

#### **Code of conduct**

Board members and Company officers are made aware of the requirements to follow corporate policies and procedures, to obey the law and to maintain appropriate standards of honesty and integrity at all times. In this regard the directors have adopted a code of conduct for directors and employees. The code of conduct covers ethical operations, compliance with laws, dealings with customers and public officials, conflicts of interest, confidential and proprietary information and insider trading. A copy of the code of conduct is available on the Company website under the security holder information section.

## **Share trading policy**

The Company's code of conduct provides that no director or employee shall purchase or sell Company securities while in possession of material information concerning the Company or such a company that has not previously been generally disclosed to the investing public for at least two business days. Nor shall an employee inform any individual or entity of any such material information, except in the necessary course of business.

Directors are required to give prior notice to the chairman of any dealings in Company securities by themselves or their associates and to provide particulars of any transactions immediately following execution. The Company Secretary is to make the requisite notifications to ASX within two days of each such transaction.

## **4. Safeguard integrity in corporate reporting**

### **Audit committee**

The Company recognises the ASX Recommendation with respect to establishing an Audit Committee as part of good corporate governance. However, considering the size of the Company, the functions that would be performed by the Committee are best undertaken by the Board. This is also in line with the ASX Recommendations which recognise that "the ultimate responsibility of the integrity of a company's financial reporting rests with the full board". The Board has adopted a policy to independently verify and safeguard the integrity of its corporate reporting including, but not limited to, the appointment or removal of the external auditor and the rotation of the audit engagement partner.

## **5. Making timely and balanced disclosure**

### **Continuous disclosure**

All directors have been made aware of the continuous disclosure requirements of the ASX Listing Rules and have been provided with a copy of the relevant rules and guidance notes.

The directors have allocated responsibility to the company secretary to alert the board to any operational or regulatory matters, respectively, which they consider may require disclosure to the market under the continuous disclosure requirements of the ASX Listing Rules. The directors then consider and approve the form of any such announcement.

All Company announcements require the approval of the Board with provision for available directors, including the chairman, to approve urgent announcements. The Company Secretary is responsible for communication with ASX. The chairman is responsible for all media contact and comment.

The annual report contains a review of operations.

## **6. Respect the right of security holders**

### **Security holder communication**

To promote effective communication with security holders and encourage effective participation at general meetings, information is communicated to security holders:

- through the release of information to the market via the ASX;
- through the distribution of the annual report and notices of annual general meeting;

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- through security holder meetings and investor relations presentations; and
- by posting relevant information on the Company website.

The independent auditor attends the annual general meeting to respond to questions from security holders on the conduct of the audit and the preparation and content of the audit report.

### **Rights of security holders**

The Board of Directors has developed a strategy within its Continuous Disclosure Policy to ensure that security holders are informed of all major developments affecting the Company's performance, governance, activities and state of affairs. This includes having a website to facilitate communication with security holders via electronic methods. Each security holder is also provided online access to the Registry to allow them to receive communication from, and send communication to, the Company and the Registry. In addition, the Company publishes regular security holder communications, such as half-yearly and annual reports and provides security holders with an opportunity to access such reports and other releases electronically.

The Board encourages full participation of security holders at the Company's annual general meeting to ensure a high level of accountability and identification with the Company's strategy. Security holders who are unable to attend the Annual General Meeting are given the opportunity to provide questions or comments ahead of the meeting and where appropriate, these questions are answered at the meeting. As aforementioned, the external auditor attends the annual general meeting of security holders and will be available to answer any questions concerning the conduct, preparation and content of the auditor's report.

## **7. Recognise and manage risk**

### **Risk management**

The Board oversees the risk management process of identification, assessment, monitoring and managing the significant areas of risk applicable to the Company and its operations. It has not established a separate committee to deal with these matters as the directors consider the size and nature of the Company and its operations to not warrant a separate committee at this time. The Board liaises with, and oversees, the Manager in the application of the risk management protocols. The Manager is responsible for monitoring the performance and risk parameters of investments and keeping the Board apprised of any market and/or Company-specific developments that may impact on the Company's investments.

In order to evaluate and continually improve the effectiveness of its risk management and internal control processes, the Company has adopted a set of Risk Management Guidelines. The Board will annually review the Company's Risk Management Guideline to satisfy itself that the risk management framework continues to be sound. The last review took place on 16 August 2016.

The Company does not have a material exposure to sustainability risks.

The Board receives a letter half-yearly from the Company's external auditor regarding its procedures, and reporting that the financial records have been properly maintained and the financial statements comply with the Accounting Standards.

The Manager provides declarations required by Section 295A of the *Corporations Act 2001* for all financial periods and confirms that in its opinion the financial records of the Company have been properly maintained and that the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view of the financial

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position and performance of the Company, based on its review of the internal control systems, management of risk, the financial statements and the letter from the Company's external auditor.

Details of the Company's financial risk management are set out in the notes to the financial statements.

## **8. Remunerate fairly and responsibly**

### **Remuneration policies**

Due to the relatively small size of the Company and its operations, the Board does not consider it appropriate, at this time, to form a separate committee to deal with the remuneration of directors.

In accordance with the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. Under ASX Listing Rules, the maximum fees payable to directors may not be increased without the prior approval from the Company in a general meeting. Directors will seek approval from time to time as deemed appropriate. The Company does not intend to remunerate its Directors through an equity based remuneration scheme. Under the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. However, Daryl Dixon, Christopher Brown and Alexander MacLachlan have agreed not to be paid any remuneration for the services they perform as directors.

Remuneration of the directors during the year ended 30 June 2017 is set out in the Directors' Report and in the notes to the financial statements.

### **Recognition of legitimate interests of stakeholders**

As detailed above, the Company has adopted a code of conduct which 'inter alia' deals with compliance with legal and other obligations to legitimate stakeholders. The full code of conduct is available on the Company website under the security holder information section.

### **Other information**

Further information relating to the Company's corporate governance practices and policies has been made publicly available on the Company's website at [www.amyf.com.au](http://www.amyf.com.au).

**Australian Masters Yield Fund No 3 Limited**  
**Directors' report**  
**30 June 2017**

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2017.

**Directors**

The names of the directors in office at any time during, or since the end of the year are:

Mr Alexander MacLachlan – Non-Executive Chairman  
Mr Daryl Dixon – Non-Executive Director  
Mr Christopher Brown – Non-Executive Director

Directors have been in office since the start of the year to the date of this report unless otherwise stated.

**Information on directors**

Alexander MacLachlan, BA (Cornell), MBA (Wharton)  
Non-Executive Chairman

Alex joined Dixon Advisory in 2008 to lead the then newly formed Funds Management division. Alex focused the efforts of the Funds Management division on providing retail investors with access to asset classes and investment opportunities that would normally only be available to institutional investors. From funds under management of under \$100 million at the time of his start, Alex has grown the Funds Management division to over \$3.2 billion of funds under management today, with investments across residential and commercial property, fixed income, private equity, listed equities and renewable energy.

Prior to joining the firm, Alex was an investment banker at UBS AG, where he rose to Head of Energy for Australasia. During his tenure in investment banking, Alex worked on more than \$100 billion in mergers and acquisitions and capital markets transactions, advising some of the world's leading companies.

Alex is currently the Chairman of the Responsible Entity for US Select Private Opportunities Fund Series, Australian Property Opportunities Fund Series, Emerging Markets Masters Fund, New Energy Solar Fund, US Masters Residential Property Fund and Evans & Partners Global Disruption Fund. Alex is also the Chairman of New Energy Solar Limited and a director of Fort Street Real Estate Capital, the Australian Masters Yield Fund Series and Asian Masters Fund Limited.

Alex has a Bachelor of Arts from Cornell University and a Masters of Business Administration from The Wharton School, University of Pennsylvania.

During the past three years, Alex has acted as a non-executive director or director of the Responsible Entity of the following Australian listed public entities:

- Asian Masters Fund Limited (since 2009)
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009, delisted 26 August 2016)
- Australian Masters Yield Fund No 1 Limited (since 2010, delisted 28 July 2017)
- Australian Masters Yield Fund No 2 Limited (since 2010, delisted 28 July 2017)
- Australian Masters Yield Fund No 4 Limited (since 2011)
- Australian Masters Yield Fund No 5 Limited (since 2012)
- Emerging Markets Masters Fund (since 2012)
- Evans & Partners Global Disruption Fund (since 2017)
- Global Resource Masters Fund Limited (since 2008, delisted 11 March 2016)
- US Masters Residential Property Fund (since 2011)
- US Select Private Opportunities Fund (since 2012)
- US Select Private Opportunities Fund II (since 2013)
- US Select Private Opportunities Fund III (since 2016).

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Daryl Dixon, MA (Hons) (Cambridge), BA (Hons)  
Non-Executive Director

Daryl is a graduate in economics of Cambridge and Queensland Universities and the founder of Dixon Advisory. Daryl has extensive experience in the areas of taxation, retirement incomes and social welfare policy. He is known in Australia as a leading financial expert, particularly in the area of superannuation.

Daryl has special expertise in personal and self managed super fund strategies, as well as extensive experience as a direct share investor in his own right.

Daryl is a director of Australian Masters Yield Fund 1 to 3. Daryl has worked previously for the International Monetary Fund, the Federal Treasury, Department of Finance and the Social Welfare Policy Secretariat. Daryl was also a member of the Fraser Government's Occupational Superannuation Task Force.

Daryl was appointed as non-executive director on 10 March 2011, and he beneficially holds 1,000 fully paid ordinary shares in the capital of the Company.

During the past three years, Daryl has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:

- Australian Masters Corporate Bond Fund No 5 Limited (since 2009, delisted 26 August 2016)
- Australian Masters Yield Fund No 1 Limited (since 2010, delisted 28 July 2017)
- Australian Masters Yield Fund No 2 Limited (since 2011, delisted 28 July 2017)
- US Masters Residential Property Fund (since 2011 until 22 June 2015)
- US Select Private Opportunities Fund (since 2012 until 23 April 2014).

Christopher Brown, BChem Eng (Hons) (USyd), BCom (USyd)  
Non-Executive Director

Chris is a director of the Australian Masters Yield Fund Series and serves as Managing Director and Chief Executive Officer at Dixon Advisory Australia.

Prior to joining the firm, Chris was an Executive Director at UBS AG in the Investment Banking Division in Sydney. Over his eight years at UBS, he provided capital markets and M&A advice to many different public and private companies in Australia and overseas. Chris specialised in providing this advice to industrial, utility, infrastructure, property and financial companies. Chris spent several years in the UBS Mergers & Acquisitions Group in New York working on transactions in chemicals, healthcare, consumer products, media, telecoms, technology, insurance and utilities.

Before joining UBS, Chris also worked in the Investment Banking division of ABN AMRO as well as for a Sydney based property funds management company and a chemical engineering and design company. Chris has a Bachelor of Chemical Engineering with 1st class honours and a Bachelor of Commerce, both from the University of Sydney.

Chris was appointed as non-executive director on 10 March 2011, and he beneficially holds 50 fully paid ordinary shares in the capital of the Company.

During the past three years, Chris has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:

- Australian Masters Corporate Bond Fund No 5 Limited (since 2009, delisted 26 August 2016)
- Australian Masters Yield Fund No 1 Limited (since 2010, delisted 28 July 2017)
- Australian Masters Yield Fund No 2 Limited (since 2010, delisted 28 July 2017)
- Australian Masters Yield Fund No 4 Limited (since 2011)
- Australian Masters Yield Fund No 5 Limited (since 2012)
- US Masters Residential Property Fund (since 2011 until 22 June 2015)
- US Select Private Opportunities Fund (since 2012 until 23 April 2014).

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**Directors' report**  
**30 June 2017**

**Company secretary**

The name of the Company Secretary in office at the date of this report is Ms Hannah Chan.

**Information on company secretary**

Hannah Chan, BCom (UNSW), MCom (USyd), CA

Hannah has a Bachelor of Commerce degree in Finance from the University of NSW and a Master of Commerce degree in Accounting from the University of Sydney. She is also a Chartered Accountant with the Institute of Chartered Accountants in Australia. Prior to joining Walsh & Company Asset Management Pty Limited (the Manager), Hannah gained extensive audit experience while working with Deloitte Touche Tohmatsu and EY (formerly Ernst & Young).

She is also the Company Secretary of Asian Masters Fund Limited, Australian Governance Masters Index Fund Limited, Australian Masters Yield Fund Series and joint Company Secretary of Walsh & Company Investments Limited.

Hannah was appointed as Company Secretary on 10 March 2011.

**Principal activities and significant changes in nature of activities**

The principal activity of the Company during the financial year was investing in Australian dollar denominated income securities. There were no significant changes in the nature of these activities of the Company that occurred during the year.

**Results and review of operations**

The profit for the company after providing for income tax amounted to \$1,837,377 (30 June 2016: \$2,664,738).

The Company has fully invested in a portfolio of Australian dollar denominated income securities with a face value of \$11.2 million.

The movement in the Company's profit was primarily driven by the reduction of the income producing assets of the Company as financial investments matured during the period with the proceeds being paid out as capital returns to investors. Profits were also lower due to the RBA reducing rates by 0.25% over the year.

As approved by shareholders at the General Meetings held on 29 November 2016, the Company made its Fifth Capital Return of \$14.34 per share on 3 March 2017 and Sixth Capital Return of \$33.49 per share on 13 June 2017. During the year, the Company has distributed, or provided for, fully and partially franked dividends of \$2.33 per share. The net asset value per share was \$23.55 at 30 June 2017 (2016: \$71.83).

The weighted average number of ordinary shares for the year was 976,386 (2016: 976,386). The basic and diluted earnings per share after tax was \$1.88 compared to \$2.73 for the previous year.

Further details are included in the Chairman's letter which forms part of this financial report.

**Dividends**

Dividends paid during the financial year were as follows:

	2017	2016
	\$	\$
Fully franked dividends of \$2.63 per share	-	2,567,896
Fully franked dividends of \$1.83 per share	1,786,786	-
25% franked dividend of \$0.50 per share	488,193	-
	<u>2,274,979</u>	<u>2,567,896</u>

## Australian Masters Yield Fund No 3 Limited

### Directors' report

30 June 2017

Dividends of \$2.33 per share paid during the 2017 financial year were comprised of:

- Fully franked dividend \$0.79 per share paid on 18 August 2016
- Fully franked dividend \$0.54 per share paid on 30 November 2016
- Fully franked dividend \$0.50 per share paid on 3 March 2017
- 25% franked dividend \$0.50 per share paid on 13 June 2017

Dividends of \$2.63 per share paid during the 2016 financial year were comprised of:

- Fully franked dividend \$0.82 per share paid on 18 August 2015
- Fully franked dividend \$0.46 per share paid on 10 December 2015
- Fully franked dividend \$0.86 per share paid on 15 February 2016
- Fully franked dividend \$0.49 per share paid on 30 May 2016

The tax rate at which paid dividends have been franked is 30% (2016: 30%).

### Directors' meetings

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Meetings held	Meetings attended
Alexander MacLachlan	4	4
Daryl Dixon	4	4
Christopher Brown	4	3

Held: represents the number of meetings held during the time the director held office.

### Remuneration report

#### (a) Remuneration policy

Under the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. However, Alexander MacLachlan, Daryl Dixon and Christopher Brown have agreed not to be paid any remuneration, including incentives, retirement benefits and other benefits, for the services they perform as directors. Aside from the directors there are no other key management personnel.

#### (b) Key management personnel's remuneration

Alexander MacLachlan, Daryl Dixon and Christopher Brown were not paid any remuneration for the services they perform as directors for the year ended 30 June 2017 (2016: nil).

#### (c) Service agreements

The Company does not presently have formal service agreements or employment contracts with any of the key management personnel.

#### (d) Directors protection deeds

The Company has agreed to provide access to board papers and minutes to current and former directors of the Company while they are directors and for a period of 7 years after they cease to be directors.

The Company has agreed to indemnify, to the extent permitted by the *Corporations Act 2001*, each officer in respect of certain liabilities, which the director may incur as a result of, or by reason of (whether solely or in part), being or acting as a Director of the Company.

**Australian Masters Yield Fund No 3 Limited**  
**Directors' report**  
**30 June 2017**

(e) Beneficial and relevant interest of directors in shares

At the date of this report, details of directors who hold shares for their own benefit or who have an interest in holdings through a third party and the total number of such shares held are listed as follows:

Director	No. of shares
Alexander MacLachlan	50
Daryl Dixon	1,000
Christopher Brown*	50

\* Christopher Brown's beneficial and relevant interest decreased by 310 shares during the year as he ceased to be a trustee of a related entity.

There were no other movements in shareholdings during the year.

f) Related-party transactions

**Management Fee**

Alexander MacLachlan is Director of the Company and Director of the Manager, Walsh & Company Asset Management Pty Limited. The Manager received an annualised management fee of 0.59% (exclusive of GST) of the value of the portfolio. The management fee paid or payable for the year was \$414,996 (2016: \$432,058) exclusive of GST.

No management fees are outstanding to the Manager at 30 June 2017 (2016: nil).

**Administration costs**

Australian Fund Accounting Services Pty Limited, a wholly-owned subsidiary of Dixon Advisory Group Pty Limited, the parent of the Manager, provides fund administration services under an agreement with the Manager.

Total fund administration fees paid or payable for the year was \$90,000 (2016: \$90,000), exclusive of GST.

**Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the company during the financial year.

**Future developments, prospects and business strategies**

The Company is fully invested and currently has the intention to hold all existing investments until maturity, however it continues to monitor opportunities to maximize value for shareholders. The Company may seek shareholder approval from time to time to return capital derived from the maturity of its investments to shareholders.

**Environmental issues**

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth, State or Territory.

**Options**

No options over issued shares or interests in the Company were granted during, or since the end of, the financial year, and there were no options outstanding at the date of this report.

**Indemnifying officers or auditor**

Indemnities have been given during, or since the end of the year, for all of the Directors of the Company.

No indemnities have been given or insurance premiums paid during, or since the end of the year, for the auditor of the Company.

**Australian Masters Yield Fund No 3 Limited**  
**Directors' report**  
**30 June 2017**

**Proceedings on behalf of the company**

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all, or any part of, those proceedings.

The Company was not a party to any such proceedings during the year.

**After balance date events**

On 1 August 2017, the Company announced a 5% franked dividend of \$0.48 per share and a capital return of \$8.19 per share. The dividend and capital return are expected to be paid to shareholders on 28 August 2017.

There has not been any other events of a material and unusual nature likely, in the opinion of the directors, to significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company, in future financial years.

**Auditor**

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

**Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page.

**Australian Masters Yield Fund No 3 Limited**  
**Directors' report**  
**30 June 2017**

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



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Mr Alex MacLachlan  
Chairman

22 August 2017

The Board of Directors  
Australian Masters Yield Fund No 3 Limited  
Level 15  
100 Pacific Highway  
NORTH SYDNEY NSW 2060

22 August 2017

Dear Board Members

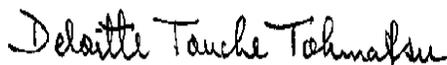
## **Australian Masters Yield Fund No 3 Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Australian Masters Yield Fund No 3 Limited.

As lead audit partner for the audit of the financial statements of Australian Masters Yield Fund No 3 Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

**Australian Masters Yield Fund No 3 Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2017**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue</b>	4	3,405,858	4,421,159
Realised (loss) on disposal/redemption of financial assets		(50,059)	(26,539)
(Loss) on financial assets at fair value through profit or loss		(73,125)	(4,875)
<b>Expenses</b>			
Management and administration fee	18	(526,621)	(546,360)
Accounting and audit fees		(31,839)	(34,995)
Listing fees		(37,624)	(37,337)
Registry fees		(26,946)	(33,158)
Custody fees		(15,001)	(24,893)
Other expenses		(25,872)	(27,067)
<b>Profit before income tax expense</b>		2,618,771	3,685,935
Income tax expense	5	(781,394)	(1,021,197)
<b>Profit after income tax expense for the year attributable to the owners of Australian Masters Yield Fund No 3 Limited</b>		1,837,377	2,664,738
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year attributable to the owners of Australian Masters Yield Fund No 3 Limited</b>		<u>1,837,377</u>	<u>2,664,738</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	20	188.18	272.92
Diluted earnings per share	20	188.18	272.92

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Australian Masters Yield Fund No 3 Limited**  
**Statement of financial position**  
**As at 30 June 2017**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	11,820,174	2,098,358
Other receivables	7	17,435	3,731
Financial assets	8	-	29,023,412
<b>Total current assets</b>		<u>11,837,609</u>	<u>31,125,501</u>
<b>Non-current assets</b>			
Financial assets	9	11,214,276	39,216,475
Deferred tax assets	10	10,918	50,816
<b>Total non-current assets</b>		<u>11,225,194</u>	<u>39,267,291</u>
<b>Total assets</b>		<u>23,062,803</u>	<u>70,392,792</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current tax liabilities	12	29,775	195,623
Other payables	11	40,063	66,060
<b>Total current liabilities</b>		<u>69,838</u>	<u>261,683</u>
<b>Total liabilities</b>		<u>69,838</u>	<u>261,683</u>
<b>Net assets</b>		<u>22,992,965</u>	<u>70,131,109</u>
<b>Equity</b>			
Issued capital	13	22,103,817	68,804,359
Retained earnings		889,148	1,326,750
<b>Total equity</b>		<u>22,992,965</u>	<u>70,131,109</u>

*The above statement of financial position should be read in conjunction with the accompanying notes*

**Australian Masters Yield Fund No 3 Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2017**

	<b>Issued capital \$</b>	<b>Retained earnings \$</b>	<b>Total equity \$</b>
Balance at 1 July 2015	71,899,503	1,229,908	73,129,411
Profit after income tax expense for the year	-	2,664,738	2,664,738
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	2,664,738	2,664,738
Capital returns (note 13)	(3,095,144)	-	(3,095,144)
Dividends paid (note 14)	-	(2,567,896)	(2,567,896)
Balance at 30 June 2016	<u>68,804,359</u>	<u>1,326,750</u>	<u>70,131,109</u>
	<b>Issued capital \$</b>	<b>Retained earnings \$</b>	<b>Total equity \$</b>
Balance at 1 July 2016	68,804,359	1,326,750	70,131,109
Profit after income tax expense for the year	-	1,837,377	1,837,377
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	1,837,377	1,837,377
Capital returns (note 13)	(46,700,542)	-	(46,700,542)
Dividends paid (note 14)	-	(2,274,979)	(2,274,979)
Balance at 30 June 2017	<u>22,103,817</u>	<u>889,148</u>	<u>22,992,965</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Australian Masters Yield Fund No 3 Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2017**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
Dividends received		208,640	281,942
Interest received from investments		2,569,488	3,176,115
Interest received from banks		141,440	43,948
Management fees paid		(456,496)	(475,264)
Payments to suppliers		(233,390)	(282,211)
Net tax paid		<u>(907,344)</u>	<u>(853,914)</u>
Net cash from operating activities	19	<u>1,322,338</u>	<u>1,890,616</u>
<b>Cash flows from investing activities</b>			
Proceeds from redemption of investments		<u>57,374,999</u>	<u>3,123,060</u>
Net cash from investing activities		<u>57,374,999</u>	<u>3,123,060</u>
<b>Cash flows from financing activities</b>			
Dividends paid	14	(2,274,979)	(2,567,895)
Capital returns paid	13	<u>(46,700,542)</u>	<u>(3,095,144)</u>
Net cash used in financing activities		<u>(48,975,521)</u>	<u>(5,663,039)</u>
Net increase/(decrease) in cash and cash equivalents		9,721,816	(649,363)
Cash and cash equivalents at the beginning of the financial year		<u>2,098,358</u>	<u>2,747,721</u>
Cash and cash equivalents at the end of the financial year	6	<u><u>11,820,174</u></u>	<u><u>2,098,358</u></u>

*The above statement of cash flows should be read in conjunction with the accompanying notes*

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**1. General information**

The financial report covers Australian Masters Yield Fund No 3 Limited (Company) as an individual entity. Australian Masters Yield Fund No 3 Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange Limited (ASX).

The financial report has been approved for issue in accordance with a resolution of the directors on 22 August 2017.

**2. Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**New or amended Accounting Standards and Interpretations adopted**

In the current year, the Company has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2016, and therefore relevant for the current year end.

- AASB 2014-9 'Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements'
- AASB 14 'Regulatory Deferral Accounts'
- AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'
- AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'
- AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'
- AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'

The adoption of the above standards had no material impact on the financial statements.

**Basis of preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The financial report has been prepared on an accruals basis and is based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. For the purposes of preparing the financial statements, the Company is a for-profit entity.

The comparative period of this report is from 1 July 2015 to 30 June 2016.

## **2. Summary of significant accounting policies (continued)**

### **Foreign currency transactions and balances**

The functional currency of the entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in profit or loss.

### **Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Interest income*

Interest income is recognised in profit or loss using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *Dividends*

Dividends are recognised when declared during the financial year.

### **Income tax**

The income tax expense for the year comprises current income tax expense and deferred tax expense.

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantively enacted, at the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted, or substantively enacted, at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

## **2. Summary of significant accounting policies (continued)**

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off of current tax assets and liabilities exists and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### **Financial instruments**

Financial Instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by market place convention.

The Company has elected to early adopt AASB 9 Financial Instruments, which was issued on 7 December 2009. AASB 9 includes requirements for the classification and measurement of financial assets. The Company has not early adopted subsequent amendments to AASB 9 issued in 2010 and 2013.

#### Financial assets

##### Initial recognition and measurement

When financial assets are recognised initially, they are measured at fair value, plus in the case of financial assets not at fair value through profit and loss, directly attributable transaction costs.

The Company determines the classification of its financial assets at initial recognition.

##### Subsequent measurement

Financial assets are subsequently measured at amortised cost using the effective interest rate method, only if the following conditions are met, otherwise they are measured at fair value:

- a) where the financial asset is held within a business model with the objective to collect contractual cash flows;
- and
- b) contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The effective interest rate method is used to allocate interest income or interest expenses over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

#### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

## **2. Summary of significant accounting policies (continued)**

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities are classified as derivative and non-derivative instruments, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at amortised cost.

#### Subsequent measurement

Non-derivative instruments are subsequently measured at amortised cost using the effective interest rate method.

#### Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is determined based on the bid price for all quoted investments in an active market. Valuation techniques are applied to determine the fair value for all unlisted securities and securities in markets that are not active, including recent arms length transactions, with reference to similar instruments and valuation techniques commonly used by market participants.

### **Provisions**

Provisions are recognised where the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### **Earnings per share**

Basic earnings per share is determined by dividing the profit/(loss) after income tax excluding any cost of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial period. Diluted earnings per share is the same because there are no dilutive potential ordinary shares.

### **Operating segments**

The Company is engaged in investing activities conducted in Australia and derives revenue from both fixed and variable interest financial assets.

### **Goods and Services Tax ('GST')**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

In most cases, the Company qualifies for Reduced Input Tax Credits (RITCs) at a rate of 75%; hence expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from the Australian Taxation Office is included in other receivables in the statement of financial position.

## **2. Summary of significant accounting policies (continued)**

Cash flows are presented in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

### **New Accounting Standards and Interpretations not yet mandatory or early adopted**

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective, which are expected to be applicable to the Company, are listed below.

*AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2014-1 Amendments to Australian Accounting Standards (Part E – Financial Instruments), AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*

This standard applies on modified retrospective to annual reporting periods beginning on or after 1 January 2018. The Company will adopt the relevant amending standards from 1 July 2018 but the impact of its adoption is yet to be assessed by the Company.

*AASB 15 Revenue from Contracts with Customers, AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15, and AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2018. The Company will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Company.

*AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses*

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The adoption of this standard from 1 July 2017 will not have a material impact on the Company.

*AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2017. The adoption of this standard from 1 July 2017 will not have a material impact on the Company.

*AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The Company will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Company.

*AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016*

This standard is applicable to annual periods beginning on or after 1 January 2017. The adoption of this standard from 1 July 2017 will not have a material impact on the Company.

*Interpretation 22 Foreign Currency Transactions and Advance Consideration*

This is effective for annual reporting periods beginning on or after 1 January 2018.

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**3. Critical accounting judgements, estimates and assumptions**

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Company.

*Key estimates and judgements - impairment*

The directors regularly review the investments held in the Company's portfolio and where it believes that impairment has occurred, or is likely to occur, it will normally seek to exit the position.

The Company follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement in determining when a financial asset is impaired. This determination requires significant judgement.

In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of, and near-term business outlook for, the investee including industry and sector performance and operational and financing cash flows.

The Company is a long-term investor and does not regard short-term or cyclical movements in the unit price of its investments as evidence of impairment.

No impairment has been recognised in respect of financial assets.

**4. Revenue**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Dividends	208,640	281,942
Interest from investments in financial assets	3,042,913	4,096,640
Interest from banks	154,305	42,577
Revenue	<u>3,405,858</u>	<u>4,421,159</u>

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**5. Income tax expense**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<i>Income tax expense</i>		
Current tax	741,496	928,254
Deferred tax	39,898	92,943
	<u>781,394</u>	<u>1,021,197</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	2,618,771	3,685,935
Tax at the statutory tax rate of 30%	785,631	1,105,781
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Franking credit from dividends	(58,752)	(84,584)
	726,879	1,021,197
Effect on deferred tax balances due to change in income tax rate (Note 10)	992	-
Under provision of deferred tax	53,523	-
	<u>781,394</u>	<u>1,021,197</u>

**6. Current assets - Cash and cash equivalents**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Cash at bank	<u>11,820,174</u>	<u>2,098,358</u>

The weighted average interest rate on cash at bank is 1.60% (2016: 1.74%) at year-end.

**7. Current assets - Other receivables**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Interest receivable	16,453	2,735
GST receivable	982	996
	<u>17,435</u>	<u>3,731</u>

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**8. Current assets - Financial assets**

	<b>2016</b>	
	<b>Face Value</b>	<b>Amortised Cost</b>
	<b>\$</b>	<b>\$</b>
<b>Corporate bonds (Maturity date, Coupon rate)</b>		
Fixed rate		
Morgan Stanley (9-May-17, 8.00%)	5,100,000	5,160,645
Floating rate		
Bank of America (14-Feb-17, 3M BBSW + 0.38%)	17,400,000	16,961,935
Morgan Stanley (22-Feb-17, 3M BBSW + 0.47%)	<u>7,000,000</u>	<u>6,900,832</u>
	<u>29,500,000</u>	<u>29,023,412</u>

**9. Non-current - Financial assets**

	<b>2017</b>	
	<b>Face Value</b>	<b>Amortised Cost</b>
	<b>\$</b>	<b>\$</b>
<b>a) Corporate bonds (Maturity date, Coupon rate)</b>		
Floating rate		
Australian Mutual Investment Trust (9-Nov-22, 3M BBSW + 3.90%)	3,700,000	3,701,696
AMP Bank Limited (21-Dec-22, 3M BBSW + 3.10%)	<u>7,500,000</u>	<u>7,512,580</u>
	<u>11,200,000</u>	<u>11,214,276</u>

Total face value and total carrying amount at 30 June 2017 was \$11,200,000 and \$11,214,276 respectively.

	<b>2016</b>	
	<b>Face Value</b>	<b>Amortised Cost</b>
	<b>\$</b>	<b>\$</b>
<b>a) Corporate bonds (Maturity date, Coupon rate)</b>		
Floating rate		
Bank of Queensland (22-Mar-22, 3M BBSW + 4.25%)	15,000,000	15,038,944
IMB Limited (29-Jun-22, 3M BBSW 4.25%)	8,000,000	8,014,368
Australian Mutual Investment Trust (9-Nov-22, 3M BBSW + 3.90%)	3,700,000	3,701,957
AMP Bank Limited (21-Dec-22, 3M BBSW + 3.10%)	<u>7,500,000</u>	<u>7,513,081</u>
	<u>34,200,000</u>	<u>34,268,350</u>
	<b>Face Value</b>	<b>Fair Value</b>
	<b>\$</b>	<b>\$</b>
<b>b) Hybrid convertible preference shares (Maturity date, Coupon rate)</b>		
Floating rate		
Insurance Australia Group (IAGPC) (1-May-19, 6M BBSW + 4.00%)	<u>4,875,000</u>	<u>4,948,125</u>

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**9. Non-current - Financial assets (continued)**

Total face value and total carrying amount at 30 June 2016 was \$68,575,000 and \$68,239,887 respectively.

**10. Non-current assets - Deferred tax assets**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<i>Deferred tax asset comprises:</i>		
Other	10,918	19,230
Amounts recognised in equity:		
Fair value of financial assets	-	31,586
Deferred tax asset	<u>10,918</u>	<u>50,816</u>

There has been a change in corporate tax rates from 30% to 27.5% during the year, applicable to corporations with annual turnover below certain thresholds. The Directors expect the Company's deferred tax balances to reverse in the period that the corporate tax rate of 27.5% applies and accordingly, the deferred tax balance at 30 June 2017 is calculated using 27.5%.

**11. Current liabilities - Other payables**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Accrued expenses	<u>40,063</u>	<u>66,060</u>

**12. Current liabilities - Current tax liabilities**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Provision for income tax	<u>29,775</u>	<u>195,623</u>

**13. Equity - Issued capital**

	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$</b>	<b>\$</b>
Ordinary shares - fully paid	<u>976,386</u>	<u>976,386</u>	<u>22,103,817</u>	<u>68,804,359</u>

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
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**13. Equity - Issued capital (continued)**

*Movements in ordinary share capital*

<b>Details</b>	<b>Date paid</b>	<b>Shares</b>	<b>\$</b>
Balance	1 July 2015	976,386	71,899,503
Fourth Capital Return of \$3.17 per share	10 December 2015	-	(3,095,144)
Balance	30 June 2016	976,386	68,804,359
Fifth Capital Return of \$14.34 per share	3 March 2017	-	(14,001,375)
Sixth Capital Return of \$33.49 per share	13 June 2017	-	(32,699,167)
Balance	30 June 2017	<u>976,386</u>	<u>22,103,817</u>

*Ordinary shares*

Holders of ordinary shares participate in dividends and the proceeds on the winding up of the Company in proportion to the number of shares held.

At shareholder meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

*Share buy-back*

There is no current on-market share buy-back.

*Capital risk management*

The Company's objective in managing capital is to continue to provide shareholders with dividends and capital stability over the long term.

The Company's capital may fluctuate with prevailing market movements and it may undertake a buyback of its shares in the event that they trade at a sizeable discount to NTA backing.

The Company's capital consists of shareholders' equity plus financial liabilities. The movement in equity is shown in the Statement of Changes in Equity. At 30 June 2017, financial liabilities were \$69,838 (2016: \$261,683). There are no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

**14. Equity - Dividends**

*Dividends*

Dividends paid during the financial year were as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Fully franked dividends of \$2.63 per share	-	2,567,896
Fully franked dividends of \$1.83 per share	1,786,786	-
25% franked dividend of \$0.50 per share	488,193	-
	<u>2,274,979</u>	<u>2,567,896</u>

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
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**14. Equity - Dividends (continued)**

Dividends of \$2.33 per share paid during the 2017 financial year were comprised of:

- Fully franked dividend \$0.79 per share paid on 18 August 2016
- Fully franked dividend \$0.54 per share paid on 30 November 2016
- Fully franked dividend \$0.50 per share paid on 3 March 2017
- 25% franked dividend \$0.50 per share paid on 13 June 2017

Dividends of \$2.63 per share paid during the 2016 financial year were comprised of:

- Fully franked dividend \$0.82 per share paid on 18 August 2015
- Fully franked dividend \$0.46 per share paid on 10 December 2015
- Fully franked dividend \$0.86 per share paid on 15 February 2016
- Fully franked dividend \$0.49 per share paid on 30 May 2016

The tax rate at which paid dividends have been franked is 30% (2016: 30%).

*Franking credits*

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Franking credits/(debits) available at the reporting date based on a tax rate of 30%	56,447	(122,116)
Franking credits that will arise from (refund)/payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	<u>(23,748)</u>	<u>195,623</u>
Franking credits available for subsequent financial years	<u><u>32,699</u></u>	<u><u>73,507</u></u>

**15. Financial instruments**

**Financial risk management policies**

The Company's financial instruments consist mainly of deposits with banks and investments in income securities. The main risks the Company is exposed to through its financial instruments are interest rate risk, price risk, liquidity risk and credit risk.

**Market risk**

*Market price risk*

Market price risk is the risk that changes in market prices such as equity prices will affect the Company's income and the value of its holdings of financial instruments.

Inherently, the Company is exposed to market price risk as it invests its capital in securities whose market prices can fluctuate.

Market risk is moderated by ensuring that the Company's investment portfolio is not overexposed to one company or one particular sector. The relative weightings of the individual funds are reviewed by the Investment Committee frequently.

The Company has performed sensitivity analysis relating to its exposure to its market price risk at balance date. This sensitivity analysis demonstrates the effect on profit and equity which would result from a change in these risks on financial assets.

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**15. Financial instruments (continued)**

The effect on profit and equity as a result of changes in the value of equity investments, with all other variables remaining constant, would be as follows:

**2017:** The Company disposed of its equity investments during the year.

<b>2016</b>	<b>% change</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>	<b>% change</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>
Equity investments	5%	<u>247,406</u>	<u>247,406</u>	(5%)	<u>(247,406)</u>	<u>(247,406)</u>

*Interest rate risk*

Exposure to interest rate risk arises on financial assets recognised at the reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Company is also exposed to earnings volatility on floating rate instruments

Interest rate risk is managed using a mix of fixed and floating rate financial assets. At 30 June 2017, approximately 100% of the financial assets were at a floating rate.

	<b>2017</b>		<b>2016</b>	
	<b>Weighted average interest rate</b>	<b>Balance</b>	<b>Weighted average interest rate</b>	<b>Balance</b>
	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>
Cash and cash equivalents	1.60%	11,820,174	1.74%	2,098,358
Other receivables	-	17,435	-	3,731
Investment in financial assets	6.42%	<u>14,325,760</u>	7.28%	<u>81,583,880</u>
Net exposure to cash flow interest rate risk		<u>26,163,369</u>		<u>83,685,969</u>

An analysis by remaining contractual maturities is shown in 'Liquidity risk' below.

The Company has performed sensitivity analysis relating to its exposure to its interest rate risk at the balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks on financial asset balances at year-end that have a variable interest rate.

The effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

<b>2017</b>	<b>% change</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>	<b>% change</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>
Cash at bank	1	118,202	118,202	(1)	(118,202)	(118,202)
Financial assets	1	<u>109,522</u>	<u>109,522</u>	(1)	<u>(109,382)</u>	<u>(109,382)</u>
		<u>227,724</u>	<u>227,724</u>		<u>(227,584)</u>	<u>(227,584)</u>

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**15. Financial instruments (continued)**

2016	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
Cash at bank	1	20,984	20,984	(1)	(20,984)	(20,984)
Financial assets	1	615,994	615,994	(1)	(616,277)	(616,277)
		<u>636,978</u>	<u>636,978</u>		<u>(637,261)</u>	<u>(637,261)</u>

**Credit risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements. The Company does not have any material credit risk exposure to a single receivable or group of debtors under financial instruments entered into by the Company.

There are no amounts of collateral held as security at 30 June 2017.

**Liquidity risk**

Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet its obligations to repay its financial liabilities when they fall due.

The Company's exposure to liquidity risk is minimal. The Company had no borrowings at 30 June 2017, and cash inflows from coupons from the underlying financial assets are received at regular intervals to meet the obligations of the Company. Financial assets can generally be traded in the over-the-counter market, in the event the Company needs to convert investments into cash to realise underlying financial positions.

*Remaining contractual maturities*

The tables below reflect the undiscounted contractual settlement terms (interest and face value) for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. Interest is only included for amortised cost assets. The amounts will not reconcile to the Statement of Financial Position.

	1 year or less \$	Between 1 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>2017</b>				
<b>Non-derivatives</b>				
Cash and cash equivalents	11,820,174	-	-	11,820,174
Other receivables	17,435	-	-	17,435
Investment in financial assets	568,320	2,273,280	11,484,160	14,325,760
Total non-derivatives	<u>12,405,929</u>	<u>2,273,280</u>	<u>11,484,160</u>	<u>26,163,369</u>
<b>2016</b>				
<b>Non-derivatives</b>				
Cash and cash equivalents	2,098,358	-	-	2,098,358
Other receivables	3,731	-	-	3,731
Investment in financial assets	26,847,065	13,579,120	41,157,695	81,583,880
Total non-derivatives	<u>28,949,154</u>	<u>13,579,120</u>	<u>41,157,695</u>	<u>83,685,969</u>

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**16. Fair value measurement**

*Fair value hierarchy*

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

*a) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)*

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>2017</b>				
<i>Assets</i>				
Corporate bonds *	-	11,276,771	-	11,276,771
Total assets	-	11,276,771	-	11,276,771

\* The amortised cost carrying value at 30 June 2017 is \$11,214,276 (refer Note 9).

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>2016</b>				
<i>Assets</i>				
Corporate bonds *	-	64,693,168	-	64,693,168
Total assets	-	64,693,168	-	64,693,168

\* The amortised cost carrying value at 30 June 2016 is \$63,291,762 (refer Notes 8 and 9).

The fair values of the financial assets measured at amortised cost included in the level 2 category above have been determined by their redemption price at balance date, or where this is not available, by applying valuation techniques with reference to recent arm's length transactions or by applying market based valuation techniques.

There were no transfers between levels during the financial year.

*b) Financial assets measured at fair value through profit or loss*

Financial Asset	Fair Value 30 June 2017	Fair Value 30 June 2016	Valuation Approach
Level 1	\$	\$	
Hybrid Convertible Preference Shares	-	4,948,125	Quoted bid prices in an active market

There were no key unobservable inputs or relationship of unobservable input to fair value during the financial year ended 30 June 2017.

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**17. Key management personnel**

*Directors*

The key management personnel of the Company comprise the Non-Executive Directors for the years ended 30 June 2017 and 30 June 2016.

*Compensation*

Alexander MacLachlan, Daryl Dixon and Christopher Brown have agreed not to be paid any remuneration for the services they perform as directors.

Key management personnel remuneration has been included in the Remuneration report section of the Directors' report.

**18. Related party transactions**

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated and are as follows:

*Key management personnel*

Disclosures relating to key management personnel are set out in note 17 and the remuneration report included in the directors' report.

*Management fee*

Alexander MacLachlan is a Director of the Company and of the Manager, Walsh & Company Asset Management Pty Limited. The Manager received an annualised management fee of 0.59% (exclusive of GST) of the value of the Portfolio. The management fee paid or payable for the year was \$414,996 (2016: \$432,058) exclusive of GST.

No management fees are outstanding to the Manager at the year-end (2016: nil).

*Administration costs*

Australian Fund Accounting Services Pty Limited, a wholly-owned subsidiary of Dixon Advisory Group Pty Limited, the parent of the Manager, provides fund administration services under an agreement with the Manager. These services include net asset valuation, management accounting, statutory reporting, capital management and taxation.

Total fund administration fees paid or payable for the year was \$90,000 (2016: \$90,000), exclusive of GST.

**19. Reconciliation of profit after income tax to net cash from operating activities**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Profit after income tax expense for the year	1,837,377	2,664,738
Adjustments for:		
Accrued interest on financial assets	(472,572)	(920,524)
Loss on redemption/sale of financial assets	50,059	26,539
Fair value through profit or loss	73,125	4,875
Change in operating assets and liabilities:		
(Increase)/decrease in receivables	(13,704)	1,629
Decrease in deferred tax assets	39,897	92,943
(Decrease) in other payables and accruals	(25,996)	(53,924)
Increase/(decrease) in income taxes payable	(165,848)	74,340
Net cash from operating activities	<u>1,322,338</u>	<u>1,890,616</u>

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**19. Reconciliation of profit after income tax to net cash from operating activities (continued)**

The Company does not have any formal loan facilities in place at the date of these financial statements.

**20. Earnings per share**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Profit after income tax attributable to the owners of Australian Masters Yield Fund No 3 Limited	<u>1,837,377</u>	<u>2,664,738</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>976,386</u>	<u>976,386</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>976,386</u>	<u>976,386</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	188.18	272.92
Diluted earnings per share	188.18	272.92

There are no instruments that could potentially dilute basic earnings per share in the future.

**21. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the company:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Deloitte Touche Tohmatsu</i> Audit or review of the financial statements	<u>27,000</u>	<u>26,250</u>
<i>Other services - Deloitte Touche Tohmatsu</i> Tax compliance	<u>-</u>	<u>2,400</u>
	<u>27,000</u>	<u>28,650</u>

**22. Capital Commitments**

The Company has no capital commitments at the balance date.

**23. Contingent liabilities**

The directors are not aware of any potential liabilities or claims against the Company at the balance date.

**Australian Masters Yield Fund No 3 Limited**  
**Notes to the financial statements**  
**30 June 2017**

**24. Events after the reporting period**

On 1 August 2017, the Company announced a 5% franked dividend of \$0.48 per share and a capital return of \$8.19 per share. The dividend and capital return are expected to be paid to shareholders on 28 August 2017.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

**25. Company details**

The registered office and principal place of business of the Company is:

Australian Masters Yield Fund No 3 Limited  
Level 15, 100 Pacific Highway  
North Sydney NSW 2060

**Australian Masters Yield Fund No 3 Limited**  
**Directors' declaration**  
**30 June 2017**

In the opinion of the directors:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

The directors of the Manager, Walsh & Company Asset Management Pty Limited, have declared that:

- the financial records of the Company for the financial year have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*;
- the financial statements and notes for the financial year comply with the Accounting Standards; and
- the financial statements and notes for the financial year give a true and fair view.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



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Mr Alex MacLachlan  
Chairman

22 August 2017

## **Independent Auditor's Report to the members of Australian Masters Yield Fund No 3 Limited**

### **Report on the Audit of the Financial Report**

#### *Opinion*

We have audited the financial report of Australian Masters Yield Fund No 3 Limited (the "Company"), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Impairment of Financial Assets</i></p> <p>As disclosed in Note 9, the Company's financial assets comprise of investments in fixed and floating rate corporate bonds held at amortised cost totalling \$11.2 million as at 30 June 2017 (2016: \$63.3 million).</p> <p>Significant judgement is required to determine if there are any indicators of impairment of the financial assets which would cause the financial assets not to be recovered at their carrying values at balance date.</p>	<p>Our audit procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the key processes adopted by management to determine if there are any impairment indicators in relation to the Company's financial assets;</li> <li>• Reviewing board minutes and published media reports during the reporting period to assess if there is any information regarding the issuer of the financial instruments which may impact on the recoverability of the financial assets;</li> <li>• Assessing on a sample basis the credit rating of the issuer at balance date to assess if there were any deterioration in credit rating during the reporting period;</li> <li>• Assessing on a sample basis that coupon receipts have been received during the reporting period in accordance with the scheduled coupon payment dates; and</li> <li>• Assessing the appropriateness of the related disclosures included in Notes 2, 3, and 9.</li> </ul>

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 14 to 15 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Australian Masters Yield Fund No 3 Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

## *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants  
Sydney, 22 August 2017

**Australian Masters Yield Fund No 3 Limited**  
**Shareholder information**  
**30 June 2017**

The shareholder information set out below was applicable as at 31 July 2017.

**Distribution of equitable securities**

Analysis of number of equitable security holders by size of holding:

<b>Distribution of shareholders category (size of holding)</b>	<b>Number of shareholders</b>
1 to 1,000	1,612
1,001 to 5,000	188
	<hr/>
	1,800
	<hr/> <hr/>
Holding less than a marketable parcel	6
	<hr/> <hr/>

**Equity security holders**

Top 20 holders of ordinary shares

	<b>Number of shares held</b>	<b>% of total</b>
ASTAM BOOKS PTY LTD	4,000	0.41
C & J PLAYER SUPER FUND A/C	3,500	0.36
ROSENSHUL S/F A/C	3,400	0.35
HAWES FAMILY SUPER FUND A/C	3,200	0.33
THE BEDO SUPER FUND A/C	3,000	0.31
SOUTHWOOD SUPER FUND A/C	3,000	0.31
THE LEAHY FAMILY S/FUND A/C	3,000	0.31
GERALDINE WALSH PENSION A/C	3,000	0.31
S DYKES & R MAGUIRE S/F A/C	2,885	0.30
VETEMAC PTY LTD STAFF SF A/C	2,700	0.28
KE DOWNES PROVIDENT FUND A/C	2,600	0.27
CHILTON SUPER FUND A/C	2,500	0.26
R SUPERANNUATION FUND A/C	2,500	0.26
DWO HAWKS SUPER FUND A/C	2,500	0.26
BREWER SUPER FUND A/C	2,500	0.26
P BARRY & L MCGREGOR S/F A/C	2,460	0.25
MENHAIR RETIREMENT FUND A/C	2,320	0.24
J & J KRUGER SUPER FUND A/C	2,300	0.24
P A & J TURNER S/F A/C	2,253	0.23
BERNARD G RENWICK S/F A/C	2,250	0.23
	<hr/>	
	55,868	5.77
	<hr/> <hr/>	

*Unquoted equity securities*

There are no unquoted equity securities.

**Substantial holdings**

There are no substantial holders in the Company.

**Australian Masters Yield Fund No 3 Limited**  
**Shareholder information**  
**30 June 2017**

**Voting rights**

The voting rights attached to ordinary shares are set out below:

*Ordinary shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

**Restricted securities**

There are no restricted securities on issue by the Company.

**Transactions**

There were no transactions in securities during the reporting period.

**Australian Masters Yield Fund No 3 Limited**  
**Management agreement**  
**30 June 2017**

The Company's investment activities are managed on an exclusive basis by the Manager. The management agreement is dated 3 November 2011 (**Management Agreement**) and the deed of assignment is dated 28 March 2014.

Subject to any applicable regulations, the Company's investment policies and any written guidelines issued by the Company from time to time, the Manager will manage the portfolio and has discretion to acquire, hold and dispose of investments on behalf of the Company.

The term of the Management Agreement provides for the appointment of the Manager for a period commencing on 2 December 2011 and expiring on 2 December 2016 (**Initial Term**). Unless terminated during the initial term, the Management Agreement will be automatically extended for successive further terms of one year each.

The Manager is entitled to receive an annualised management fee of 0.59% (plus GST) of the value of the portfolio, payable annually in advance within 10 Business Days of each 30 June during the term of the Management Agreement. The Manager is not entitled to a performance fee.

The Manager is also entitled to be reimbursed by the Company for fees, costs and expenses when properly incurred in connection with the investment and management of the portfolio, the acquisition, disposal or maintenance of any investment or performance of the Manager's obligations under the Management Agreement, including costs of convening and holding a general meeting of the Company, fees payable to ASIC or any other regulatory body, outgoings in relation to the portfolio (for example, insurance premiums, rates, levies, duties and taxes), all costs including commissions and brokerage incurred in connection with the acquisition or sale of any of the Company's investments or proposed investments and any software licensing or software subscription fees in connection with risk monitoring and investment research specifically in relation to the portfolio incurred by the Manager approved by the Board.

The Manager may terminate the Management Agreement at any time by giving to the Company at least six months' written notice.

The Management Agreement gives the Company certain termination rights including the right to immediately terminate the Management Agreement if the Manager:

- a) becomes insolvent; or
- b) materially breaches its obligations and such breach cannot be rectified; or
- c) breaches its obligations and does not remedy that breach within 30 days after the Company has notified the Manager in writing to remedy the breach; or
- d) allows the value of the portfolio to fall to a level below \$1,000,000 and a notice of meeting for the Company to be sent to shareholders which includes a resolution to seek approval to voluntarily wind up the Company; or
- e) persistently fails to ensure that investments made on behalf of the Company are consistent with the Company's investment strategy.

The Company may also terminate the Management Agreement if the licence under which the Manager performs its obligations is suspended for a period of one month or more or is cancelled at any time and the Manager fails to maintain an authorisation enabling it to perform its obligations under the Agreement from a third party holder of a licence.

The Company is also entitled to terminate the Management Agreement after the expiration of the Initial Term on delivery of three months' prior written notice.



ANNUAL REPORT **FOR THE YEAR ENDED 30 JUNE 2017**

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